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C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000084

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SUBJECT: AMBASSADOR'S MEETINGS WITH KEY ECONOMIC MINISTERS
IN NEW GOVERNMENT

REF: BUCHAREST 3293

Classified By: ECONOMIC SECTION CHIEF JOHN R. RODGERS FOR REASONS 1.4 B
AND D

11. (C) Summary: The Ambassador's first calls on new Romanian government ministers responsible for the economy reveal pro-business and pro-American attitudes. They want to move ahead aggressively to change perceptions of Romania as a destination for foreign direct investment. In particular, they intend to introduce more transparent procedures, root out corruption and pursue tax cheats. Post assesses them as sincere and dynamic, but the government bureaucracy the previous government left behind will be difficult to motivate to make radical changes in the short term. Post will engage the new team to assist them and advance U.S. business and trade interests. End Summary.

12. (C) Ambassador and Econ Chief met during the first week of January 2005, with three key Romanian government (GOR) economic ministers shortly after they took office. Minister for Economics and Commerce, Codrut Seres, Minister for Finance, Ionut Popescu; and State Minister for Economic Coordination, Adrian Videanu were all enthusiastic about making radical changes in how Romania does business and eager to work with the United States. They also realize the hurdles and problems they have inherited in making the economy competitive and resilient as it enters the European Union in less than two years.

The Young and the Restless

13. (C) The ministers are young) Videanu is 42, Seres is 35, and Popescu is 40 - and have significant exposure to Western business practices. For example, Minister Videanu, a self-made millionaire, got his start in the marble business with a loan from the Romanian American Enterprise Fund and enthusiastically endorses American business practices and the culture of success in the U.S. They are also extremely ambitious, planning to bring about change in a short amount of time. Further, despite being from different parties in the governing coalition) Videanu is from the Democratic Party (PD), Seres is from the Humanist Party (PUR) and Popescu is from the National Liberal Party (PNL), they all appear to speak (and truly understand) the same free market language.

14. (C) They pointed to their coalition government's swift introduction of a flat tax of 16 percent for corporate and personal income as a signal of their intention to re-shape the way Romania does business (Septel). This is only their first step, they claim. In addition, over the next 3 months Minister Videanu wants to modify the fiscal code, change the labor code, eliminate administrative barriers to companies, and criminalize tax evasion. Minister Popescu also wants to use the nascent capital markets for more effective privatizations by selling state-owned shares in companies on the stock exchange.

15. (C) The main objective of the legal changes the new government is pursuing is to attract greater volumes of much more foreign direct investment (FDI). Indeed, Romania lags significantly behind most other former communist countries in Central and Eastern Europe in per capita FDI inflows.

Creating a Level Playing Field

16. (C) In addition to legal changes, the new ministers also want to introduce a new climate of transparency and fairness in the way the GOR approaches improving the business climate. The new government intends to create a more level playing field for competition and to treat foreign and domestic businesses equally under the law. They also want to clamp down on the previous government's penchant for granting tax relief to struggling enterprises or even bailing out bankrupt firms run by political cronies. In this regard, they pointed to their government's action to suspend the previous

government,s decision to save a failed refinery (RAFO: see Ref B) run by politically well-connected &businessmen.8

A Novel Approach: Go After the Crooks

17. (C) For all three ministers, another important element in creating a level playing field and improving the business climate is to attack the pervasive corruption in society. Each minister emphasized the importance of ensuring that the Justice Ministry is truly independent of political influence so that it can pursue criminal cases even against &the big fish.8 As Minister of Finance Popescu phrased it, the government wants to punish offenders, but &we would prefer to lose in court than to interfere in the justice process.8 Ambassador,s Message: We Can Help

18. (C) The Ambassador,s message to the ministers was that the United States will assist Romania with advice and cooperation to help Romania develop its economy even more rapidly. In addition, he stated that many American firms want to do more business in Romania and will welcome the announced change of attitude to FDI.

19. (C) The Ambassador also pointed out that some American exports to Romania are being hurt by tariffs that exceed those granted to EU countries and the USG wants to discuss this with the GOR. This is linked with the lower tariffs Romania enjoys through the USG,s General System of Preferences (GSP). Economic Minister Seres, confirmed that the Minister-Delegate for Trade, Iulius Winkler, had discussed this issue with him already. Seres remarked that this is a delicate issue, since the EU wants Romania to maintain tariffs that give its companies an advantage over U.S. exports, but that the GOR is willing to discuss it to try to achieve a solution. Minister Seres suggested convening a technical level discussion to explore approaches. The Ambassador agreed, saying that the embassy would consult with USTR and Commerce.

Comment: The Hard Part Has Just Started

10. (C) The Embassy welcomes the forward-looking and market-oriented perspectives of the new set of economic ministers. Nonetheless, the catch will be working with holdover bureaucracies less amenable to change than themselves. In general, however, the embassy has a very favorable impression of the first steps of the new economic team in Romania and plans to engage intensively with the GOR to provide advice and assistance where appropriate. Finally, the very pro-American stance of the new government even lends some hope to address the long-simmering GSP tariff issue.

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